

Pwyllgor Cyllid | Finance Committee

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SHAPING THE FUTURE OF WELSH RETAIL

RETAIL INDUSTRY RECOMMENDATIONS
TO THE WELSH GOVERNMENT FOR ITS
2018-19 BUDGET



A SNAPSHOT



12,880
RETAIL OUTLETS
IN WALES 2016



9%
OF WELSH
BUSINESSES
ARE RETAILERS



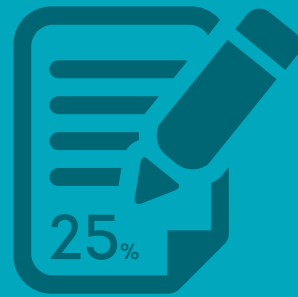
RETAIL
CONTRIBUTES:
6%
OF WELSH GVA



137,000
RETAIL JOBS IN WALES



32^{BN}
ACROSS THE UK
RETAIL PAYS
TAX PER YEAR



25%
ALL BUSINESS
RATES FOR WALES

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FOREWORD



The WRC welcomes the opportunity to engage in discussion on the forthcoming Welsh budget given the privileged position that retail occupies at the heart of our local communities.

As the nation's largest private sector employer and a driving force in the Welsh economy we understand how budgetary decisions can have wide ranging implications on both retailers and our consumers. And we are acutely aware of the challenges and difficult decisions faced in trying to manage the budget; these are challenges that we grapple with on a daily basis, as an industry that is undergoing transformational change and which is faced with testing operating environments.

Increasing food and raw materials price inflation has brought an end to a near decade long period of falling consumer prices, but the fall in the value of Sterling and the impact of fierce, technology enabled competition means that retailers' margins are actually depressed despite often modestly increased prices for the customer. Over the next decade the industry will continue its fundamental change; becoming more automated and more productive, but ultimately employing significantly fewer people from many fewer physical retail locations. As can be seen from the continued decline in the number of shops in Wales, these issues are just the most visible symptoms of the profound structural change that the traditional model of retail is undergoing.

It is in this context of enormous challenge and transition that the cumulative burden of government-imposed costs has become an increasingly acute issue. In addition to the lack of reform of the outdated business rates system, the cumulative burden is seeing retailers challenged with the implications of regulatory costs including the National Living Wage, the Apprenticeship Levy and rising statutory increases in employer pension contributions.

Ultimately, the fiscal environment is crucial. A substantially reformed business rates system that adapts to the changing retail world will be fundamental to this. Over the next decade the revenues from business rates from retail will fall. If the government wants that fall to be of a managed nature, they need to take swift and decisive action to reduce the counter-productively high share of the total business rates burden borne by retail. Otherwise the revenue fall will be more severe as the economic case for retaining shops becomes less and less sustainable and retailers thus have no choice but to close units and shed jobs at a faster pace than would otherwise be necessary.

In recognition of the role the retail industry can play we are encouraged by the recent appointment of a lead official within Welsh Government for the retail industry; we hope that the appointment will ensure that the retail industry is at the forefront of emerging policy.

However, we continue to press the case for a retail strategy for Wales, or at the very least the recognition of our industry within the forthcoming Welsh Government economic strategy and the subsequent action plans. The retail industry is integral in developing successful and resilient communities, it is not solely about jobs and growth but the role our industry can play in developing wider community benefit; whether that be economic, social or environmental. Every year, many retailers make significant investments in helping to improve the communities they serve, going far beyond offering a wide range of quality products in a highly competitive market.

The retail industry looks for a long-term strategic economic vision which will encourage investment, and deliver economic growth. For retailers the budget provides a great opportunity to assist the industry to be more productive, stimulate investment and bolster consumer sentiment. We welcome the opportunity to continue to engage across all Government departments to ensure we take a partnership approach to building a sustainable industry which continues to support communities across Wales.

SARA JONES

Head of the Welsh Retail Consortium



ECONOMIC OVERVIEW

The long term trend towards a growing and wealthier population presents genuine opportunities for the retail industry in Wales. Retail continues to be largest private sector employer, with 137,000 colleagues, as well as one of its most dynamic sectors. However, this is a challenging time for Wales's retailers. Retail sales growth has been anaemic for the past three years, against a backdrop of profound structural, economic and regulatory change for the industry added to more recently by a lack of clarity over what Brexit will look like.

Retailers are responding by seeking to become productive through investing in the future. That includes investing in: new technology, a higher skilled workforce, and revamped logistics capabilities. Yet this investment is taking place at a time when public policy costs are growing.

Consumer spending, the mainstay of Wales's economy and a reliable source of economic growth, faces headwinds in the months ahead as household finances contend with rising overall inflation, weaker earnings growth, and domestic cost pressures. Competition and innovation within the sector has delivered substantial benefits for consumers and has helped keep down the cost of living, and our Shop Price Index has recorded four years of falling shop prices. However, the era of sustained falling prices at tills is coming to an end, as retailers find it increasingly difficult to absorb a mixture of rising global food commodity prices, fluctuations in the exchange rate since the Brexit vote, and changes in public policy costs.

Areas of discretionary spend are being affected the most, with sales of non-food items struggling whilst groceries and online sales perform better. The shop vacancy rate in Wales continues to stand higher than the UK average at 12.1%, above the 9.6% average seen across the UK.

The outlook remains challenging. With falling shop prices, increasing empty shops, and fewer shoppers in stores, the industry will be looking for certainty and continuity over the forthcoming period. At the same time we will be asking Government to examine where, using the levers at its disposal, it can reduce the burden and help improve the economic prospects for an industry that plays a pivotal role in communities across Wales.

CHIEF RECOMMENDATIONS

The retail industry's chief recommendations for the Welsh Government's upcoming Budget:

- Ensure that retail is prioritised in the forthcoming Welsh Economic Strategy, and the industry is engaged in helping to support and deliver on the subsequent actions plans.
- Build on the current Small Business Rates Review by bringing forward an immediate review on reforming business rates for all over the decade ahead, to ensure rates better flex with economic conditions. Deliver a medium-term plan to substantially lower the rates burden.
- Maintain the commitment to not increase the rate of income tax during the course of this assembly (post 2019).
- Introduce a moratorium on new or additional rates levies during the remainder of the current parliamentary term
- Provide an annual review on the implementation of the Apprenticeship Levy in Wales and consider taking forward a Flexible Skills Fund.
- Engage the retail industry at the earliest possible opportunity on any proposals that arise from the national debate on new tax powers. Ensure that the unintended consequence of any move to introduce are fully costed and appreciated, and reject those which will negatively impact on the retail industry given the ongoing cost pressures and transformational change that is being experienced.

DETAILED RECOMMENDATIONS

A RETAIL STRATEGY FOR WALES AND THE WELSH ECONOMIC STRATEGY

The WRC welcomes the appointment of a retail lead official within Welsh Government to support our engagement across all sectors and ensure that the industry is represented at an early stage in policy development and new legislation. Early contact with individual retailers by the lead official is crucial, and we are keen to see a formal process of engagement with the official through our WRC Board meetings.

We are cognisant of the new Economic Strategy which is being drafted and due for imminent publication by the Welsh Government. We would ask that the strategy acknowledges the role that the retail industry has to play.

As the largest private sector employer in Wales, and accounting for a quarter of business rates both government and retailers have a shared interest in improving the conditions for the industry to flourish and succeed. We would also ask that the action plans that are developed to implement the strategy utilises the skills and experience of the retail industry and identifies ways in which our members can support on meeting aspirations.

The retail industry is undergoing seismic change against a challenging backdrop driven by changes in shopping habits, new technology, stiff competition, and burgeoning costs¹. These changes are already having profound implications for firm's business models and investment plans, jobs and productivity. The changes will also have profound implications too for devolved public policy, particularly for employment prospects in more vulnerable communities more reliant on retail jobs, for our town centres and for future revenues from taxes such as business rates.

Consequently, we continue to call for a joint retail strategy to be developed in order to support a more strategic and coherent approach towards public policy which nurtures the growth of the industry over the decade ahead. The strategy ought to include a clear road-map setting out the intended regulatory and tax changes that are likely to impact on the industry over the decade. This will be of benefit to retail and the customers it serves, but also its substantial supply chain and the other sectors it touches.

BUSINESS RATES

According to the OECD commercial property taxes in the UK are the highest in the OECD². Tax revenues from business rates in Wales have leapt by 38% over the past 10 years and firms have faced rises in the headline poundage rate from 41.4p to 49.9p in the £ over the same period. Retail is a property intensive industry but is becoming less so, during the past six years there has been a net reduction of 780 shops in Wales (6% of the total) which ultimately means less tax revenues for government. Retailers are keen to see fundamental reform of Wales's £993m annual business rates system in order to support investment, business growth and revive our high streets where 1 out of every 8 premises is vacant. Keeping taxes down and predictable helps retailers fund their investment plans, as retained profits are a crucial source of financing investment intentions.

1. The cumulative impact of recent UK public policy has for example meant retailers responding to the National Living Wage and higher employer pension contributions, over and above the Apprenticeship Levy and rises in business rates

2. Commercial property taxes in the UK are the highest in OECD: <https://data.oecd.org/tax/tax-on-property.htm>

With September's RPI expected to be in the region of 4% retailers are likely to face a £280 million increase in business rates across the UK in April 2018 leading to fewer shops and fewer jobs. We remain concerned that communities across Wales cannot afford a further increase in business rates and the resulting loss of investment. Waiting until 2020, or later, to slow the growing burden for ratepayers by switching to CPI indexation is simply too late. A fairer level of property taxation that is competitive compared to other OECD and European countries is needed now to encourage investment.

We ask that the Welsh Government continues to provide greater urgency to the range of options which may recast business rates for the decade ahead and deliver a system which is modern, sustainable, coherent and competitive. A fundamentally reformed rates system which flexes with economic and trading conditions and leads to a substantially lower tax burden would increase retailers' confidence about investing in new and refurbished shop premises and help revive high streets and town centres.

At the heart of this agenda should be a medium-term plan to substantially lower the rates burden with more frequent revaluations, ensuring independent valuations, should be implemented at every 3 years and a move to understanding the legislative vehicle by which CPI indexation can be taken forward.

There are also a number of shorter term measures which Ministers should pursue and these should include a moratorium on any new or additional business rate taxes and that the outcomes of the SBRR consultation, which generally is a welcome recognition of the need to keep down costs for firms, does not unduly impact on multiples and large premises.

The current rates system is opaque, unwieldy and only seems to function through a myriad of exemptions and reliefs that continue to grow as an overall proportion of the total income from business rates. We question how sustainable this 'sticking plaster' approach is and how effective it will be.

WELSH INCOME TAX

The retail industry takes a great interest in personal taxation issues because of the potential impact on customers' disposable incomes and discretionary spending, the potential impact on employees and on retailers' administrative systems, and because of the potential knock on implications for other taxes.

Any moves which would lead to those working in Wales having to pay higher taxes than elsewhere in the UK could affect the ability of retailers to retain or attract talent - either on a permanent or temporary basis - especially when compared to other parts of the UK. Wales is an attractive place to live and work and in order for it to remain so we would request Ministers to maintain the commitment to not increase the rate of income tax during the course of this assembly.

The amount consumers have to spend is of course influenced by a wide range of factors including the cost of living which can be affected by broader public policy decisions. Retailers can and do play their part in keeping down the cost of living for families.

The WRC believes Wales's prospects can be enhanced further by using future powers over income tax to positively support the economy and consumer spending. The best outcome for retailers, households and the economy is for income tax rates for the vast majority of the Welsh public to be at least as competitive as they are over the border.

NEW DEVOLVED TAXES

With the recent announcement by the Cabinet Secretary regarding the national debate on ideas for potential new Welsh taxes³, the Welsh Retail Consortium is keen to outline and engage on these ideas at the earliest possible stage.

Whilst we are supportive of examining how the new levers available to the National Assembly for Wales can be used to change behaviours and deliver improvements for our communities, we would urge extreme caution in adding undue burden and financial penalty on a sector that is undergoing such transformational change and which is likely to see a contraction in its store footprint and jobs over the forthcoming period. We would also suggest that, if the driving force is changing behaviour, how we can use existing tools rather than taxation as a means to change.

Reflecting on some of the proposals mooted by the Bevan Foundation report which were cited by the Finance Secretary, our concerns would be drawn to the unintended consequence should some of these proposals be progressed further. Decision makers must be mindful of the cross border impact of introducing new legislation, which is likely to be as acute in our border communities as anywhere else in the UK. With such a porous border, and with the recent announcement on the scrapping of the Severn Bridge tolls, there is the potential for consumers to move more fluidly and a greater focus for business to consider where it invests should undue costs be imposed through taxation.

APPRENTICESHIP LEVY

Retailers have a strong record on training and career progression in Wales's local communities, with many providing a wide range of apprenticeships in diverse areas such as logistics, warehousing and food preparation alongside many other accredited or job related qualifications. That record is under threat by the asymmetric approach to the implementation of the (UK-imposed) Apprenticeship Levy.

Retailers in Wales are estimated to contribute circa £9million a year towards the Levy, for which it remains somewhat unclear what they get in return, with many viewing it as simply another cumulative cost burden. The WRC welcomed the decision by the Welsh Government to increase its investment during the current financial year in Level 2 apprenticeships, following initial proposals to reduce the number of places available. We ask that this funding is maintained and that a one-year review is initiated with the potential that this review could lead to a Flexible Skills Fund.

3. 'Have your say in the development of potential new taxes', Welsh Government statement, 4 July 2017

LAND TRANSACTION TAX

Due to the nature and scalability of the industry many retailers have a choice over where to buy, rent or invest in retail premises and warehouses in the UK. With the Land Transaction Tax replacing Stamp Duty Land Tax in Wales from April 2018 the rates, bands and thresholds for Land Transaction Tax must ensure Wales's taxes on purchases of commercial property are competitive.

FEES, CHARGES & LEVIES

The Welsh Government, its agencies, and Welsh local authorities determine or are highly influential in the setting of a number of fees, charges and levies which are or can be applicable to retailers. These include planning application fees, Business Improvement District levies, water and sewerage charges, fees for building warrants and the Carrier Bag Charge. The WRC is keen to see effective, well-resourced and consistent regulatory services, underpinned by a clear rationale for variations in charges with commensurate improvements in services and based on timely dialogue with the industry.

DEPOSIT RETURN SCHEME (DRS)

Welsh retail is amongst the most climate-conscious industries and retailers have taken a lead in reducing the environmental impacts of both their own direct operations and supporting improvements right along their supply chain and with customers⁴.

Alongside the efforts being made by industry it is welcome news that Wales is now ranked the third best recycling nation in the world.

The Welsh Government is currently undertaking research into Extended Producer Responsibility and will look at the feasibility of a Deposit Returns Scheme as part of this research. We continue to work closely with officials on this issue, whilst remaining firmly opposed to any such scheme for drinks and other containers. Such a nation-wide deposit scheme or 'bottle tax' would disproportionately penalise the consumer by pushing up prices, by tens of millions of pounds, at a time household finances are coming under increasing strain. A DRS would undermine existing kerbside recycling, for which there are ambitious plans and which already benefits from significant sums of sunk investment from taxpayers.

Further negative consequences would be an increase in carbon emissions through extra consumer journeys and retailer haulage operations; asking shops and grocery delivery vans to take waste like this could incur environmental health issues. A DRS also has the potential to disproportionately impact on consumers with mobility issues. The equipment required to accommodate a DRS would reduce trading space in shops on our high streets which is incongruous with any ambitions to revitalise town centres. We would see a further loss of trading space, costs of storage, associated installation infrastructure, and staff training. Given our nation's positive recycling figures, and the ongoing educational initiatives being undertaken by Welsh Government and local authorities to encourage greater recycling, we believe the introduction of a Deposit Return Scheme would be a retrograde step.

4. 'A Better Retailing Climate: Driving Resource Efficiency in Wales', WRC, 2015

REGULATION

With a significant number of retailers operating on a national and international stage the ease and cost of doing business is a major factor in their decisions of where to invest. Important steps have been taken in recent years including the development of Primary Authority which will guarantee greater regulatory consistency across the 22 local authorities in Wales. We are keen to ensure future regulations take full account of the dramatic structural change occurring in industries like retail and we would welcome the opportunity for further discussion with our industry in ensuring that regulation does not place unnecessary burden on retailers given the current flux facing the industry.

INFRASTRUCTURE

Transport is vital to the success of the retail industry. With outlets located in most cities and towns, retailers rely on access to good quality and reliable transport for the daily operation of their businesses – for ease of access for customers, to deliver goods, and to enable employees to reach the workplace.

Rail is increasingly used to distribute freight for retailers around the country, and changes in customer demand and how people shop is putting a premium on having effective high speed broadband. As a result, any windfall 'consequential' received from UK Budgets should be used for GDP-enhancing infrastructure projects or town centre regeneration which benefit the business environment.

MINIMUM UNIT PRICING (MUP) - ALCOHOL

The Welsh Government has announced that it will this year introduce legislation that will make it illegal for alcohol to be sold below a set price. Retailers have had a number of concerns around MUP. Firstly, on principle we oppose measures which interfere with the market and put costs up for our customers. Secondly we believe there is a concern that MUP may hit less affluent moderate consumers of alcohol whilst not necessarily having the desired impact on problem drinkers.

However, if MUP is brought in, it's crucial that there is a clear and rigorous approach taken to assessing the impact of the policy. As well as the data side, that also requires Government not to bring forward any further measures which would make it impossible to accurately understand what the impact of MUP has been. The WRC is a member of the Welsh Government Alcohol Industry Network and will continue to work with all partners on this issue and promote the use of a range of targeted measures which are likely to produce a greater impact.

WINDFALL CONSEQUENTIALS

Any windfall consequentials received by the devolved administration from UK Budgets should be used to keep down business taxes and directed towards GDP-enhancing infrastructure and town centre enhancements.

CONCLUSION

Retail is an industry undergoing enormous structural change during a sustained period of weak demand, and growing government-imposed costs have become an acute issue. We believe this Budget provides an excellent opportunity to better support the industry's potential, to grow and flourish continuing to support communities in Wales and offer job opportunities as Wales's largest private sector employer. We are very much open to further dialogue on how this can be better realised.

CONTACT DETAILS

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ABOUT THE WRC

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The WRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The WRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.

In addition to publishing leading bell-weather indicators on Welsh footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the WRC's Board.



WELSH RETAIL CONSORTIUM

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